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India

Grain and Feed

Quarterly Lock-up Report: May 2007

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Report Highlights:

Although the overall wheat supply situation in MY 2007/08 appears to be better than last year, due to higher production and larger government carry-over stocks, likely lower wheat procurement by the government is expected to result in imports. According to official sources, the State Trading Corporation of India (STC) is tendering for one million tons of wheat on April 30 for June-July delivery. The government's Food Corporation of India has recently invited global bids for call option contracts for November and December 2007. Flour millers in southern and western India have reportedly started buying small quantities of lower priced Pakistani wheat, with the likelihood of additional imports. Rice procurement and stocks this marketing year are down while exports remain strong. Domestic corn prices have firmed in recent months but imports have not taken place due to lack of price parity, despite the zero import duty. Concerned over the rising prices, the government has approved the import of 1.5 million tons of pulses by government agencies.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Unscheduled Report
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Table 1: Commodity, Wheat, PSD

PSD Table										
Country	India									
Commodity	Wheat									
	2005	Revised		2006	Estimate		2007	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		04/2005	04/2005		04/2006	04/2006		04/2007	04/2007	MM/YYYY
Area Harvested	26500	26500	26500	26400	26400	26400	0	27600	27600	(1000 HA)
Beginning Stocks	4100	4100	4100	2000	2000	2000	3500	3500	5000	(1000 MT)
Production	68640	68640	68640	69350	69350	69350	0	72500	73700	(1000 MT)
MY Imports	32	32	32	6300	6300	6300	0	3000	3000	(1000 MT)
TY Imports	118	118	118	6300	6300	6300	0	3000	3000	(1000 MT)
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Supply	72772	72772	72772	77650	77650	77650	3500	79000	81700	(1000 MT)
MY Exports	801	801	801	200	200	200	0	50	50	(1000 MT)
TY Exports	369	369	369	200	200	200	0	50	50	(1000 MT)
Feed Consumption	300	300	300	300	200	300	0	200	200	(1000 MT)
FSI Consumption	69671	69671	69671	73650	73750	72150	0	75000	75450	(1000 MT)
Total Consumption	69971	69971	69971	73950	73950	72450	0	75200	75650	(1000 MT)
Ending Stocks	2000	2000	2000	3500	3500	5000	0	3750	6000	(1000 MT)
Total Distribution	72772	72772	72772	77650	77650	77650	0	79000	81700	(1000 MT)
Yield	2.590189	2.590189	2.590189	2.626894	2.626894	2.626894	0	2.626812	2.67029	(MT/HA)

WHEAT

GOI revises production estimate up

The third advance estimate of 2007 wheat production by the Ministry of Agriculture at 73.7 million tons is about one million tons higher than the second advance estimate. The upward revision is attributed to better growing conditions during the later stages of crop development, characterized by a prolonged cool weather, resulting in better grain filling. Damage caused by hail and rains in February are reported to be minimal. Findings from a Post field trip to major wheat-growing states tend to support the government's higher wheat production estimate. Most of the production increase is expected in the non-surplus wheat growing states such as Rajasthan, Madhya Pradesh, Gujarat, Uttar Pradesh, and Bihar. In the largest wheat surplus states of Punjab and Haryana, however, production is expected to be more or less at the same level as last year.

Wheat harvest in north India this year was delayed by a week to ten days due to extended cool weather conditions and occasional rains. Furthermore, prevailing high feed/fodder prices have prompted farmers to resort to manual harvesting of wheat instead of combining, as this would result in better chaff recovery. Wheat chaff, mixed with green fodder, is typically fed to dairy animals in north India, and is currently fetching around Rs. 4,000 (\$98) per ton to farmers, on top of the of Rs. 8,500 (\$202) per ton for wheat.

Government wheat procurement lagging

Because of the late harvest and increased manual harvesting of wheat, market arrivals and government procurement are lagging behind last year's level. Furthermore, on expectations of higher prices later in the season, farmers are holding their wheat stocks, adversely impacting government wheat purchases. However, farmers are now in the dark regarding future price trends in the absence of the wheat futures markets, which the government banned recently. Although procurement is expected to continue for a longer period this year compared with last year, total procurement by the government is expected to be only marginally higher at around 10 million tons compared to last year's 9.2 million tons and the government target of 15 million tons. Most procurement is likely to be from Punjab (7 million tons) and Haryana (3 million tons). The government has purchased only small quantities from other wheat growing states so far, where most of the wheat is reportedly bought by the private trade at prices above the support price. However, in Punjab and Haryana the private trade is virtually absent because of government's undeclared restrictions on private trade operations and the higher purchase cost in these states. State taxes, levies, market fees, and commission charges, totaling around 11.5 percent of the purchase price, takes the total wheat cost in these states to around Rs. 9,500 (\$226) per ton at the *mandi* (grain market) level and around Rs. 10,000 (\$238) bagged, for mill-delivery.

How much wheat will be imported?

Although the overall wheat supply situation in MY 2007/08 appears to be better than last year due to higher production and larger government carry-over stocks (estimated at 5 million tons on April 1, 2007, compared with 2 million tons a year ago), wheat availability with the government to manage the public distribution system (PDS) should continue to come under pressure due to likely lower wheat procurement this year. As against an annual requirement of at least 17 to 19 million tons (13 to 15 million tons for the PDS and 4 million tons for maintaining the buffer stocks), wheat availability with the government is likely to be around 15 million tons (10 million tons procurement + 5 million tons carry in stocks). Thus there would appear to be a need to import two to four million tons of wheat this year, unless the government further reduces the allocation to the PDS from the MY 2006/07 low level of 12 million tons (which would be politically disagreeable) or allows buffer stocks to fall below the required minimum level of 4 million tons on April 1, 2008 (which would compromise the food security). Despite larger wheat availability in the open market compared with last year, prices are expected to remain firm, as the government has raised the base price (minimum support price) drastically by Rs. 1,500 (\$36) per ton to Rs. 8,500 (\$203) in MY 2007/08.

As there has been no upward revisions in the government sales price (issue prices) of wheat through the PDS (Rs. 6,100 per ton for the Above Poverty Line (APL) clientele, Rs. 4,150 for the Below poverty Line (BPL) clientele, and Rs. 2,000 for the poorest-of-the-poor clientele) to offset the higher purchase cost, the gap between the open market price and the government sales price is likely to widen, resulting in larger demand for the low-priced PDS wheat. Due to political compulsions and concerns about inflationary pressure in the economy, the government is unlikely to revise the sales price of wheat through the PDS in the near future. As an alternative to imports, the government might perhaps consider sourcing wheat in the domestic market later in the season at prevailing market prices or paying an additional bonus to farmers in order to meet its PDS requirement, if that works out to be cheaper than the imported wheat. Whichever course is taken, the government food subsidy is expected to balloon this year due to the steep hike in the support price without a corresponding change in the sales price.

When?

Carry over wheat stocks of 5 million tons (which are estimated to include around 2 to 3 million tons of imported wheat located in south and west India) and the likely procurement of 10 million tons through May should take care of the government's PDS wheat requirement for the next several months, unless there is a calamity such as a complete failure of the summer monsoon rains starting in June, or a significant decline in procurement, even below the projected 10 million tons. However, concerned about the slow progress in the procurement of wheat so far this marketing year, the State Trading Corporation of India (STC) is issuing a tender for the import of one million tons of wheat for June/July delivery. According to official sources, the last date for the bid is May 10, 2007, and should remain valid until May 18, 2007. The government's Food Corporation of India (FCI) has recently invited global bids for call option contracts for November and December 2007, which however is unlikely to receive any serious bids.

... How about private wheat purchases?

Currently flour millers in non-wheat growing states of south and west India are getting wheat from the nearby states of Madhya Pradesh, Rajasthan, and Gujarat at around Rs. 11,000 (\$262) per ton (mill delivery). Because of the larger wheat availability in the open market, prices are likely to stabilize at this level in this region for the next several months. Although the government has extended zero duty wheat imports by the private trade through December 2007, the relaxed phyto norms for wheat imports announced in July 2006 have not been extended beyond February 28, 2007. Private wheat purchases would occur only if imported prices work out cheaper than the domestically sourced wheat, which is not the case now, except in the case of Pakistani wheat. Some of the southern and western Indian flour millers have reportedly started buying small quantities of Pakistani wheat in containers, priced at \$230 (CIF), on a trial basis and have so far reportedly booked around 700 containers (17,000 tons). The quality of the wheat is reported to be good and if it meets Indian phytosanitary requirements, additional imports in bulk would materialize. Imports of up to 1 million tons of Pakistani wheat are currently forecast by trade sources, although much would depend on the availability and prices. There is also a possibility of the private trade importing wheat from Black Sea regions, particularly Ukraine, later if prices are competitive vis-à-vis domestic wheat. The continuing strengthening of Indian rupee against US dollar provides an additional incentive for private wheat imports.

Table 2: Commodity, Rice, Milled, PSD

PSD Table										
Country	India									
Commodity	Rice, Milled									
	2005 Revised			2006	Estimate		(1000 HA) (1000 MT) (MT/HA)		2007 Forecast	UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		10/2005	10/2005		10/2006	10/2006		10/2007	10/2007	MM/YYYY
Area Harvested	43400	43400	43400	44000	44000	44000	0	44000	0	(1000 HA)
Beginning Stocks	8500	8500	8500	10520	10520	10520	9720	9150	9500	(1000 MT)
Milled Production	91790	91790	91790	91000	90130	91000	0	91000	91000	(1000 MT)
Rough Production	137699	137699	137699	136514	135209	136514	0	136514	136514	(1000 MT)
Milling Rate (.9999)	6666	6666	6666	6666	6666	6666	0	6666	6666	(1000 MT)
MY Imports	0	0	0	0	0	0	0	0	0	(1000 MT)
TY Imports	0	0	0	0	0	0	0	0	0	(1000 MT)
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Supply	100290	100290	100290	101520	100650	101520	9720	100150	100500	(1000 MT)
MY Exports	4200	4200	4200	4300	4000	4500	0	3500	4000	(1000 MT)
TY Exports	4500	4500	4700	4300	3500	4500	0	3500	4000	(1000 MT)
Total Consumption	85570	85570	85570	87500	87500	87520	0	88650	88000	(1000 MT)
Ending Stocks	10520	10520	10520	9720	9150	9500	0	8000	8500	(1000 MT)
Total Distribution	100290	100290	100290	101520	100650	101520	0	100150	100500	(1000 MT)
Yield (Rough)	3.172788	3.172788	3.172788	3.102591	3.072932	3.102591	0	3.102591	0	(MT/HA)

RICE

Production up ...

The government recently revised the MY 2006/07 rice production upward to 91.0 million tons from the earlier estimate of 90.1 million tons. The PS&D table has been revised to reflect the revision. Most of the increase is in the *kharif* (fall and early winter harvested) crops, now estimated at 78.5 million tons, whereas the *rabi* (winter crop) was revised marginally lower to 12.5 million tons.

... Procurement and stocks lower

Domestic rice procurement by the government through mid-April 2007 totaled 20.9 million tons against 22.5 million tons during the corresponding period of MY 2005/06 (Oct-Sep). Total MY 2006/07 procurement is likely to be around 25 million tons against last year's record 27.6 million tons, with most of the decline confined to north and central Indian states. Government-held rice stocks on February 1, 2007, were 12.6 million tons against February 1, 2006, stocks of around 14 million tons. Lower stocks and a likely decline in procurement would force the government to be more cautious on continuing the increased allocation of rice in place of wheat through the PDS as it did last year, further increasing the pressure on wheat supplies from government stocks.

Exports strong

According to preliminary official statistics, rice exports through November in CY 2006 were 4.3 million tons (1 million tons basmati rice and 3.3 non-basmati rice). Major destinations were Saudi Arabia, Nigeria, South Africa, Bangladesh, Ivory Coast, the United Arab Emirates, and several other African countries. Total CY 2006 exports are likely to reach around 4.7 million tons. Trade sources are bullish about India's rice export prospects in 2007 and prices are expected to gain with the strengthening of the Indian rupee against dollar. Currently Indian white rice is quoted at around \$275 per ton for 5 percent broken and \$290 per ton for parboiled.

Table 3: Commodity, Corn, PSD

PSD Table										
Country	India									
Commodity	Corn									
	2005	Revised		2006	Estimate		2007	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		11/2005	11/2005		11/2006	11/2006		11/2007	11/2007	MM/YYYY
Area Harvested	7600	7600	7600	8300	8300	8300	0	8500	8500	(1000 HA)
Beginning Stocks	311	311	311	325	501	325	325	301	200	(1000 MT)
Production	14710	14710	14710	15000	13560	13850	0	15500	15500	(1000 MT)
MY Imports	4	0	4	0	50	0	0	0	0	(1000 MT)
TY Imports	4	0	4	0	0	0	0	0	0	(1000 MT)
TY Imp. from U.S.	2	0	2	0	0	0	0	0	0	(1000 MT)
Total Supply	15025	15021	15025	15325	14111	14175	325	15801	15700	(1000 MT)
MY Exports	500	300	500	200	200	200	0	250	250	(1000 MT)
TY Exports	497	300	497	200	200	200	0	250	250	(1000 MT)
Feed Consumption	6000	6000	6000	6500	6500	6500	0	7000	7000	(1000 MT)
FSI Consumption	8200	8220	8200	8300	7110	7275	0	8151	8050	(1000 MT)
Total Consumption	14200	14220	14200	14800	13610	13775	0	15151	15050	(1000 MT)
Ending Stocks	325	501	325	325	301	200	0	400	400	(1000 MT)
Total Distribution	15025	15021	15025	15325	14111	14175	0	15801	15700	(1000 MT)
Yield	1.935526	1.935526	1.935526	1.807229	1.633735	1.668675	0	1.823529	1.823529	(MT/HA)

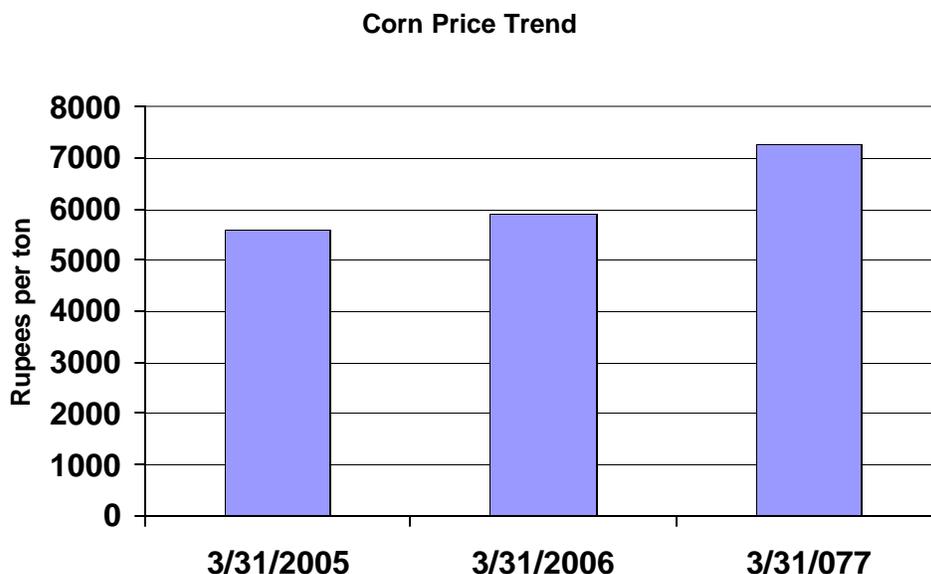
CORN

Production marginally up

The GOI recently revised India's MY 2006/07 corn production marginally upward to 13.9 million tons, due to higher production in the winter season estimated at 2.9 million tons, but still below the MY 2005/06 estimate of 14.7 million tons.

Corn prices up

Domestic corn prices have firmed up recently from an average Rs.7,100 per ton at the beginning of April to Rs. 7,500 (\$179) per ton in mid-April. Mill-delivery prices are ranging from Rs.8,600 – 9,650 (\$207 to \$233) per ton, depending on location. For the financial year 2006/07, ended on Mar 31, 2007, corn prices were up over last year by almost 23%. Prices have increased considerably over the last two years. Price at the *Mandi* level in end-March 2005 was Rs.5,580 per ton, which increased by 5.3 percent to Rs. 5,890 per ton in end-March 2006, and further by 18.8 percent to Rs.7,258 (\$173) by end-March 2007 price.



Despite Zero Duty No Imports

High domestic corn prices prompted the government to abolish the import duty on corn for January 25, 2007, through December 2007, and remove the Tariff Rate Quota (TRQ) restrictions. However, to date no corn imports have taken place, as there is no parity between the domestic and imported prices. The Director-General of Foreign Trade, through a notification issued on March 5, 2007, restricted corn exports only through government agencies such as the STC, MMTC, PEC, and NAFED for the next six months.

PULSES

Production revised downward

The third advance estimate of MY 2007/08 pulse production by the government at 14.1 million tons is 400,000 tons lower than its second estimate. Production includes 6 million tons of chickpeas, 2.5 million tons of pigeon peas, and 5.6 million tons of other pulses (peas, lentils, mung beans, black matpe, etc.).

Government approves large pulse imports by state agencies

Concerned over the rising prices of pulses (peas, lentils, and beans), the government's Cabinet Committee on Economic Affairs (CCEA) has given approval to import 1.5 million tons of pulses through public sector agencies such as NAFED, STC, and MMTC over the next six to eight months. The government has asked these agencies to formulate market-wise and month-wise import plans. Imports by these agencies would qualify for a subsidy of up to 15 percent. Imports would include 750,000 tons of yellow peas and 750,000 tons of urd (black matpe), masur (lentils), and tur (pigeon pea). The import duty on pulses has already been eliminated. In IFY 2006/07 (April/March), total pulse imports (both by private and public agencies combined) were around 1.8 million tons, which are expected to increase significantly in IFY 2007/08.